



CAT  
MEMORANDUM

TO : Vice Chairman

DATE: July 30, 1959

FROM : President

REF. No. P-59-190

SUBJECT: Possibilities in Vietnam

REC'D DCA AUG 3 1959

This is to provide you information on Air Vietnam and to inquire of your interest in any possible arrangement between CAT and Air Vietnam. The attached memorandum T&S-59-569 largely explains what we know of the situation.

It isn't clear just how serious Air Vietnam interest is or why they have selected CAT as the one they would prefer to work with. Speculation is that they are wary of associating themselves again with large carriers such as Air France, BOAC and PAA. It is said there have been talks between AVN and JAL, who is most anxious to tie up with AVN, but that AVN is leery of JAL since they are a big carrier too. CPA was said to have been considered, but AVN is afraid of big British interests and CPA is "too hard to deal with". (Good businessmen, no doubt!) It is further said that CAT (CAT meaning Civil Air Transport, not Air America) is liked because they are a small regional carrier likely to remain small and probably not either able to or inclined to overshadow AVN.

I believe it is fair to assume that AVN will want

1. CAT to furnish the equipment, do the work and pay the expenses.
2. The prestige of an international operation ostensibly Air Vietnam.
3. An arrangement which would provide them some cash income whether or not the operation were profitable, plus a share in profits, if any.
4. Some participation in activities by certain AVN personnel.

Certainly I am not one knowledgeable of typical arrangements for enterprises of this sort or experienced in working out arrangements as complicated as this one promises to be, but it occurs to me that we might find the prospects worth looking into.

I offer the following comments to provide a starting point:

One immediate problem would be flying equipment, of course. The competitive situation makes it necessary that nothing less substantial than DC6B equipment be considered. We do not now possess sufficient equipment of this sort to satisfy our own needs. However, should the forecast economics of any prospective arrangement with AVN tend to justify acquisition of a DC6B for such purpose, then perhaps such additional aircraft might serve and facilitate both situations.

3-8/5/59

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09-Oct-2009

July 30, 1959

Since we are unable, so far, to make the airline operation we have break even, it is unrealistic that we should predict a breakeven for a CAT/AVN undertaking. Yet, such should be the first test to which ~~any~~ <sup>any</sup> proposal is put. We haven't, at this point, given serious thought to the economics, but with the increased activity, hopefully without proportionate increase in overhead, we might come out well enough to make the expansion of area of influence interesting and acceptable.

Undoubtedly AVN will think in terms of the operation being under their colors. This would complicate equipment flexibility, but some equipment interchange might be worked out. The size of any resulting operation, and schedules, would govern possibilities. Until more is known it is not practical to pursue this particular problem.

Income arrangements for AVN represent one of the biggest problems, naturally. Should we be able to predict, reliably, a profitable venture the logical solution might be a profit sharing. Since a profitable operation seems moot, probably we would have to provide income based on sales. One way would be for AVN to run their sales organization in Vietnam, in addition to CAT operating theirs, and collect the usual interline sales commissions on sales made by them. Outside Vietnam sales activities could be conducted by CAT under a joint CAT/AVN style but without AVN bearing expenses or earning commission. AVN might well furnish handling in Vietnam and be reimbursed by CAT at standard rates. Since the commissions from AVN's sales and handling in Vietnam probably would fall somewhat short of satisfying AVN, probably a percentage of revenue earned by operations over AVN tracks or routes would have to be paid to AVN. I am at a loss as to what might be acceptable to both parties but venture, say, two percent for discussion purposes. The further attraction of a share of profits, if any, might well be offered on the premise that it would be a quite unlikely but happy turn of events.

Looking upon our experience and taking cognizance of the many questionable business prospects which obtain in this situation, it is likely that we would have to look for benefits, if any, to come from dilution of present fixed burden expenses through revenue expansion resulting from expanded operations, plus benefits, if any, from expanded areas of influence, rather than from this operation taken separately.

It is not known how much property, ground or flight, AVN owns or what ideas they may have in respect of it. It could be that they plan on anyone reaching agreement with them buying, in full or in share, such property. However, it is unlikely that they do own much. Probably most of AVN's equipment, especially flight equipment, is owned by Air France. Presumably AVN would continue to operate domestically and so would need most of what they do own. A different situation than that of Thai Airways exists in that AVN does not have a lot of overpriced expensive flight equipment on hand and necessarily involved in any deal.

Possibly an arrangement with AVN could benefit us on the HKG-TPE route.

Vice Chairman

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July 30, 1959

China and Vietnam might exchange air rights between Taipei and Saigon via Hong Kong. AVN could exercise Vietnam's rights, with CAT doing the operating under a CAT/AVN arrangement, AVN having reciprocal rights with CPA in Hong Kong, while CAT, not having rights in Hong Kong would defer exercising its rights in Vietnam.

May we have your expression of interest, if any, and your views which might guide us in exploring the matter further with Air Vietnam.

*Hugh L. Grundy*  
Hugh L. Grundy

encl: T&S-59-569

cc: File (2)

Also attach, a copy of SgN 22 55 232  
Which just arrived. Line asked UPT&S  
To respond <sup>to 52</sup> saying we may be interested,  
we actively consider it and will  
let them know soon. He can say such  
early. Probably it is better not to respond  
in writing. To say until we know more  
about what we want to do.

*H*

RECEIVED  
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CAT  
MEMORANDUM

CONFIDENTIAL

TO : President  
FROM : VPT&S  
SUBJECT : Air Vietnam Inquiry

DATE: 17 July 1959

REF. No. T&S-59-569

REC'D L AUG 3 1959

SZSGN advised that Air Vietnam is interested in and has requested a proposal from CAT to operate Air Vietnam international schedules under an acceptable pool arrangement. Currently such schedules are operated in conjunction with Air France and include the Saigon/Hongkong and Saigon/Bangkok routes. We understand that the AVN/AF agreement has expired and it is AVN's desire to conclude an agreement with a regional carrier instead of an extension of the Air France agreement or conclusion of such an agreement with any other large trunk line carrier.

We have not been able to determine details of a proposal which AVN might receive favorably. However, we understand that their main interest is to retain the international schedules without cost while at the same time adding a regular income to the AVN operation. (A desired position but one hard to achieve.) The arrangement between AVN and AF, as we understand it, calls for sharing of both expenses and profits and has not to date been very fruitful for AVN. On this basis it appears that AVN would be more responsive to an arrangement whereby a percentage of gross were paid to them in exchange for the rights to operate their routes with income retained and expense paid by the operator. Before pursuing this matter further, I would like to have an expression of interest in developing such an arrangement with the proviso, of course, that it can be accomplished economically.

I have the following general comments for consideration:

1. Traffic in general over the subject routes is good and I estimate with reasonable promotion and with the CAT standard of service that the operation can be made to pay its own way.
2. Using the AVN trackage our third frequency into Hongkong could be extended to Saigon and Bangkok thereby increasing the salability of our Hongkong/Bangkok sector by adding a third frequency without depending on this highly served sector to support the flight. Passengers using our service could then be accommodated without any undue delay between flights which experience has shown us over the Hongkong/Bangkok sector that the intervals encountered on twice weekly frequency has resulted in required endorsement of flight coupons.

3 - 8/5/59

*Dieter*

17 July 1959

3. Now that we have lost our fourth Taipei/Hongkong frequency, we could possibly regain this frequency by encouraging Air Vietnam to seek rights to operate the route Taipei/Hongkong/Saigon/Bangkok under such an arrangement. (CPA serves Saigon and beyond to Singapore, therefore we assume if this matter is pursued the Hongkong government would approve an equal number of flights for AVN to Hongkong and beyond that is approved in Saigon for CPA. Currently CPA is operating only one frequency to and from while the agreement between the Vietnam and Hongkong governments allows two frequencies.)
4. We estimate that operation of these routes with DC-4 equipment would not be successful and DC-6B equipment or equivalent type would be required. Looking at our position of 4-engine equipment, should we be successful in winning the bid for the next MATS inter-island contract, the addition of the route miles over these sectors would improve the utilization of two DC-6B's on our schedules and support the position that we should obtain a second DC-6B for scheduled operation and use 1002 with 1004 (re-registered) and backed up by N-2168 for MATS operations.

With JAL flights commencing in August using DC-6B equipment, NWA using DC-7C and DC-6B equipment, and CPA using DC-6B's and possibly Electras, the outlook for returns on our DC-4 operations between Taipei/Tokyo and Tokyo/Seoul is dim. We can only estimate that the returns will decline. The use of DC-6B equipment will substantially improve our position and enable us to compete more effectively.

If interest in pursuing this matter exists, I would like an early response with some guide lines to follow as I have had little experience in this field and do not wish to waste time on proposals which cannot be accepted.



Var M. Green

cc: File - C/S  
VMG/eo